

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 NEA-10 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PRS-01 PA-01 /120 W
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R 031555Z FEB 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 3682
INFO USMISSION OECD PARIS
USMISSION EC BRUSSELS
AMEMBASSY BONN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMEMBASSY OTTAWA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O.11652: N/A

TAGS: PINT, PFOR, BR, US

SUBJECT: PETROLEUM RISK CONTRACTS IN BRAZIL -- PROSPECTIVE
ANNOUNCEMENT OF GUIDELINES

1. SUMMARY: IN THE NEAR FUTURE BRAZIL WILL BEGIN IMPLEMENTATION
OF THE DECISION, ANNOUNCED BY PRESIDENT GEISEL
ON OCTOBER 9, PERMITTING FOREIGN OIL COMPANIES TO EXPLORE
FOR PETROLEUM UNDER SERVICE CONTRACTS WITH PETROBRAS, THE
GOVERNMENT OIL MONOPOLY, WHICH CONTROLS PRODUCING AND REFINING
OPERATIONS IN BRAZIL. ACCORDING TO AN OFFICIAL PRESS
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RELEASE, THE PETROBRAS BOARD OF DIRECTORS HAS NOW APPROVED

THE BROAD GUIDELINES FOR SUCH RISK CONTRACTS, AND A PUBLIC ANNOUNCEMENT AND INVITATION FOR BIDS ARE EXPECTED SHORTLY. FOREIGN COMPANIES WILL BE PERMITTED TO ENGAGE IN EXPLORATION AND DEVELOPMENT, BUT THE CONTROL OF PRODUCING OPERATIONS WILL REMAIN WITH PETROBRAS. THE DECISION, AND ITS PROSPECTIVE IMPLEMENTATION, WHICH REPRESENTS AN AT LEAST PARTIAL REVERSAL OF AN HISTORIC POLICY ESTABLISHED BY THE SECOND VARGAS ADMINISTRATION TWENTY YEARS AGO, SEEM TO HAVE BEEN ACCEPTED WITH RELATIVELY LITTLE PUBLIC CONTROVERSY.

END SUMMARY.

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2. BEGIN UNCLASSIFIED: PETROBRAS HAS ANNOUNCED THAT ITS BOARD OF DIRECTORS ON JANUARY 29 APPROVED THE BASIC MINUTE FOR RISK CONTRACTS AS WELL AS THE OFFICIAL NOTICE AND BIDDING PROCEDURES. THE PRESS RELEASE, HOWEVER, CONTAINS NO DETAILS ON THE TERMS PETROBRAS IS PREPARED TO OFFER. TEN AREAS, ALL EXCEPT ONE OFF-SHORE, WILL BE OPENED FOR BIDDING.

3. ACCORDING TO PETROBRAS SOURCES, PUBLICATION OF THE BIDDING INVITATION IN THE WORLD PRESS COULD OCCUR WITHIN A WEEK, FOLLOWING THE RETURN OF THE MINISTER OF MINES AND ENERGY SHIGEMITSU FROM HIS TRIP TO JAPAN. A POSSIBLE PUBLICATION DATE OF FEBRUARY 7 IS BEING MENTIONED IN THIS CONNECTION. ACCORDING TO EARLIER PRESS REPORTS, SIMULTANEOUS PUBLICATION OF THE NOTICE IS PLANNED IN MAJOR PAPERS IN THE UNITED STATES, LONDON, AND TOKYO, AS WELL AS IN BRAZIL. ACCORDING TO THESE REPORTS (JORNAL DO BRASIL, JANUARY 29), INTERESTED COMPANIES WOULD BE GIVEN THIRTY DAYS TO SUBMIT PROPOSALS AND ANOTHER 60 DAYS TO NEGOTIATE THEIR CONTRACTS WITH PETROBRAS. THE FIRST CONTRACTS, THEREFORE, THE PRESS REPORTS, WOULD BE SIGNED IN JUNE. THE PETROBRAS RELEASE NEITHER CONFIRMS NOR DENIES THIS TIME FRAME.

4. IN ITS PRESS RELEASE, PETROBRAS STATES THAT THE MINUTE AS APPROVED BY THE BOARD OF DIRECTORS, ENVISAGES A SPECIFIC PERIOD OF EXPLORATION. IF THE

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CONTRACTOR DOES NOT DISCOVER OIL IN QUANTITY SUFFICIENT FOR COMMERCIAL PRODUCTION DURING THIS PERIOD, THE CONTRACT TERMINATES, WITH THE CONTRACTOR FULLY RESPONSIBLE FOR THE EXPENSES MADE UP TO THAT DATE. IF A COMMERCIAL FIELD IS DISCOVERED, THE CONTRACTOR WILL BE REIMBURSED FOR ALL EXPENDITURES FOR "EXPLORATION, EVALUATION, AND DEVELOPMENT" OF THE FIELD, OVER A PERIOD TO BE NEGOTIATED. BEYOND THIS REIMBURSEMENT,

THE CONTRACTOR WILL BE ENTITLED TO A REMUNERATION, CALCULATED ON THE PRODUCTION FROM THE FIELD OVER A SPECIFIED PERIOD, WHICH CONSTITUTES PAYMENT FOR THE SERVICES RENDERED, INCLUDING THE RISK TO THE CONTRACTOR. THE RELEASE ALSO NOTES THAT THE MINUTE CONTAINS PREFERENTIAL PROVISIONS FOR BRAZILIAN LABOR AND INDUSTRY.

5. IN THE INITIAL PHASE, PETROBRAS WILL LET CONTRACTS IN TEN AREAS TOTALING 62,000 SQUARE KILOMETERS, LOCATED IN THE SEVEN SEDIMENTARY BASINS ALREADY SELECTED FOR EXPLORATION UNDER RISK CONTRACT BY A SPECIAL COMMITTEE OF PETROBRAS. ACCORDING TO JORNAL DO BRASIL (JANUARY 29) THESE AREAS ARE ON THE CONTINENTAL PLATFORM OFF THE COAST OF MARANHAO PARA, ESPIRITO SANTO, SANTOS, PARANA, PELOTAS, THE MOUTH OF THE AMAZON, AND THE CENTRAL AMAZON REGION. THE PAPER ALSO STATES THAT, ACCORDING TO GOVERNMENT SOURCES IN BRASILIA, THE FORM OF PAYMENT WOULD VARY FROM REGION TO REGION, DEPENDING ON OPERATING CONDITIONS, WITH THE SEDIMENTARY BASINS DIVIDED INTO FOUR CATEGORIES, ACCORDING TO THE PROSPECTS OF SUCCESS. PAYMENT TO THE CONTRACTOR WOULD BE IN MONEY OR PRODUCTION SHARING BUT PETROBRAS WOULD HAVE FIRST CLAIM TO ALL OIL.

6. PRESS REPORTS AND PRESS COMMENTARY HAVE BEEN POSITIVE. O ESTADO DO SAO PAULO, IN ITS FEBRUARY 1 WEEKLY ECONOMIC COLUMN, CONSIDERS THE PETROBRAS ACTION THE BIG NEWS OF THE WEEK. THE PAPER COMMENTS THAT THERE CAN BE NO DENYING THE URGENCY OF AN ACCELERATION OF PETROLEUM EXPLORATION IN ORDER TO ALLEVIATE, IN THE LONG TERM, THE PRESSURE OF PETROLEUM IMPORTS ON BRAZIL'S BALANCE OF PAYMENTS. THE FULL TEXT OF THE MINUTE WOULD HAVE TO BE KNOWN IN ORDER TO LIMITED OFFICIAL USE

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EVALUATE THE PROSPECTS THAT FOREIGN COMPANIES WOULD BE INTERESTED IN SUCH EXPLORATION. O JORNAL DO BRASIL (FEBRUARY 1), NOTING ESSENTIALLY THE SAME POINT, REPORTS THAT PETROLEUM CIRCLES CONSIDER THE BRAZILIAN APPROACH A SYNTHESIS OF THE SERVICE CONTRACTS USED IN MANY COUNTRIES. SOME COMPANIES WERE INTERESTED IN KNOWING WHETHER PETROBRAS WOULD ADOPT THE IRANIAN APPROACH UNDER WHICH THE CONTRACTOR WOULD HAVE A PREFERENTIAL RIGHT TO PURCHASE A CERTAIN QUANTITY OF OIL AT LESS THAN THE CURRENT MARKET PRICE. ON THE OTHER HAND, THERE HAD BEEN NO INDUSTRY CRITICISM, THE PAPER SAYS, THAT PETROBRAS WAS RESERVING TO ITSELF ALL PRODUCING OPERATIONS. END UNCLASSIFIED.

7. BEGIN LIMITED OFFICIAL USE: COMMENT: PETROBRAS' STAFF WORK ON

THE GUIDELINES HAS BEEN HELD EXTREMELY TIGHT SINCE PRESIDENT GEISEL
FIRST ANNOUNCED HIS DECISION ON OCTOBER 9. AS A RESULT,
THERE HAVE BEEN NUMEROUS RUMORS AND MASSIVE PRESS SPECULATION.
VISITING OIL COMPANY OFFICIALS -- IF THEY WERE
GIVEN ANY INSIGHT INTO PETROBRAS' THINKING, WHICH IS
DOUBTFUL -- HAVE MAINTAINED A DISCREET SILENCE. ACCORDING
TO MINISTER UEKI, SOME 30 COMPANIES ARE INTERESTED.
EXPERIENCED OBSERVERS, CONSULTED BY CONGEN RIO, CONSIDER THE REPORTED
PETROBRAS TIMEEATABLE, IF CORRECT, EXTREMELY AMITIOUS. THESE OBSERVERS
HAVE BELIEVED THAT IT WOULD TAKE PETROBRAS UP
TO SIX MONTHS TO DEFINE THE CONTRACTUAL TERMS AND THE
DRILLING AREAS TO BE COVERED, AND THAT NEGOTIATIONS WOULD
TAKE SEVERAL MORE MONTHS TO COMPLETE. HOWEVER, PETROBRAS
UNDOUBTEDLY IS UNDER CONSIDERRABLE PRESSURE FROM THE
NATIONAL AUTHORITIES TO CONCLUDE AT LEAST AN ITIAL
ROUND OF CONTRACTS AS RAPIDLY AS POSSIBLE.

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CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00

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PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

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R 031555Z FEB 76

FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 3683
INFO USMISSION OECD PARIS
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8. EQUALLY NOTEWORTHY HAS BEEN THE LACK OF OPEN PUBLIC CONTROVERSY. ALTHOUGH THE INITIAL BUILD-UP TO THE GOB DECISION AND ITS IMMEDIATE AFTERMATH WERE CHARGED WITH EMOTIONS, AT THIS POINT AT LEAST, THE PUBLIC CONTROVERSY SEEMS TO HAVE ALL BUT DISAPPEARED EXCEPT FOR SOME LEFT-NATIONALIST MAGAZINES. SOME POSSIBLE REASONS FOR THIS ARE:

(A) THE ENTRY OF INTERNATIONAL COMPANIES UNDER CONTRACT WITH THE STATE OIL MONOPOLY IS NO LONGER THE EMOTIONAL ISSUE IT ONCE WAS, AND THE GOVERNMENT HAS MADE AN EFFORT TO IGVE ASSURANCES TO PUBLIC OPINION
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THAT PETROBRAS' CONTROL WILL BE SAFEGUARDED.

(B) THE WORLD PETROLEUM CRISIS, TOGETHER WITH THE FAILURE OF THE STATE MONOPOLY TO MAKE ANY PROGRESS TOWARD SELF-SOFFICIENCY, AND THE SERIES OF DRAMATIC PRICE INCREASES FOR GASOLINE, HAVE IMPRESSED THEPUBLIC OF THE NEED TO CALL ON FOREIGN EXPERTISE AND CAPITAL IN THIS, AS IN OTHER FIELDS.

(C) STRIDENT ECONOMIC NATIONALISM, OF THE KIND CURRENT IN THE FIFTIES, WHILE STILL CERTAINLY PRESENT TO A DEGREE, DOES NOT CONSTITUTE AT PRESENT THE MAJOR THEME OF THE MODERATE BULK OF THE MDB OPPOSITION: AND THE WHOLE ISSUE IS CURRENTLY OVERSHADOWED BY NATIONAL QUESTIONS OF FAR GREATER MOMENT AND CONCERN.

(D) THE NATIONAL PRESS HAS BEEN LARGELY SUPPORTIVE OF THE GOVERNMENT'S POLICY, IN SOME CASES AS A RESULT OF INFORMAL GOVERNMENT GUIDANCE, BUT IN THE MAJORITY OF CASES, WE BELIEVE, INCLUDING THE MAJOR NATIONAL PAPERS, OUT OF CONVICTION. END LIMITED OFFICIAL USE.
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